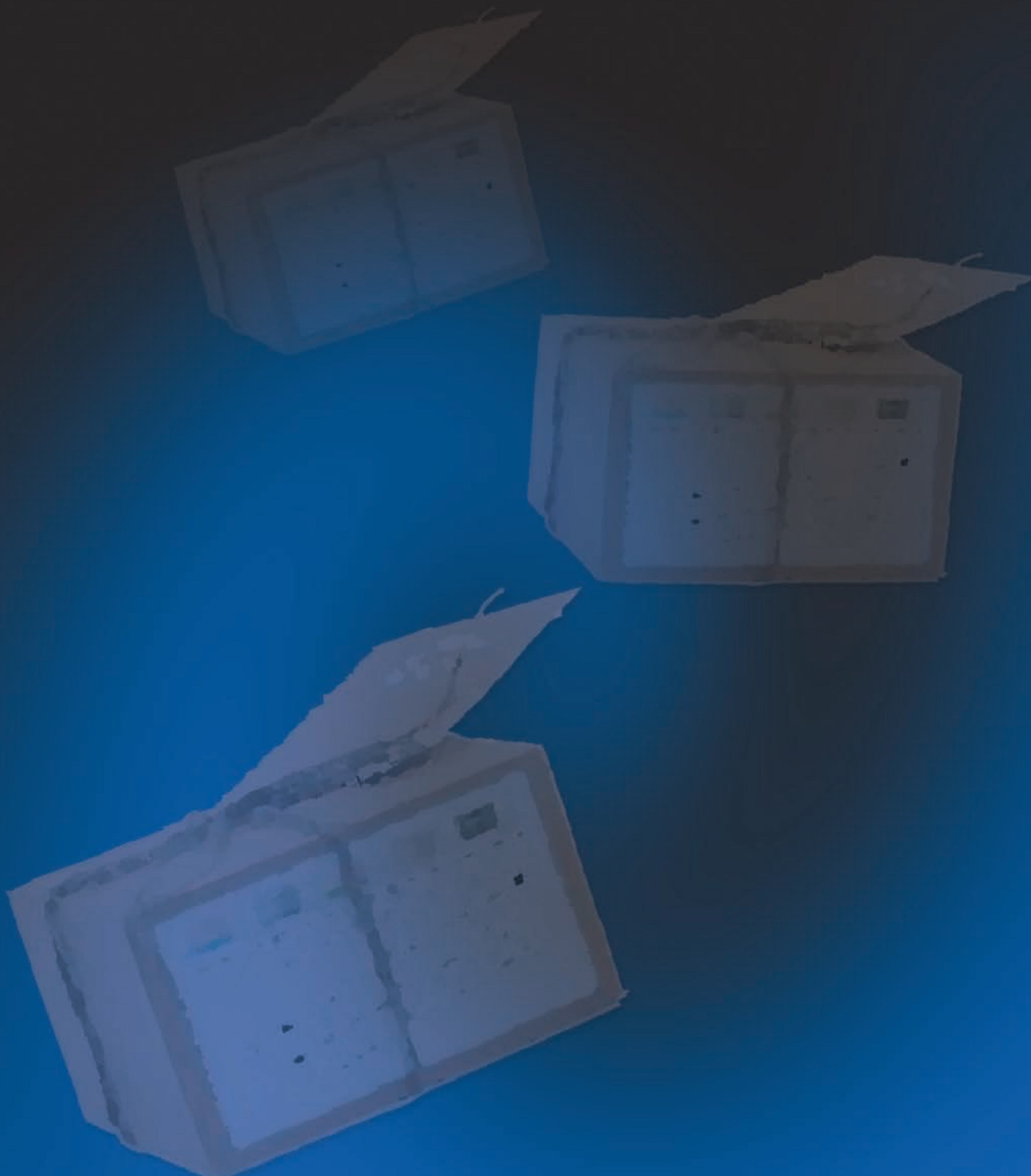


Annual report and financial statements for the year ended 31 March 2014

GUERNSEY POST

CORPORATE DETAILS

Directors:
Dudley R Jehan (Chairman)
Boley Smillie (Chief Executive)
Steve Sheridan (Finance)
Steve Hannon (Non-Executive)
Andrew Duquemin (Non-Executive)
Stuart Le Maitre (Non-Executive)
Simon Milsted (Non-Executive)

Auditors:
KPMG Channel Islands Limited
Chartered Accountants
PO Box 20
20 New Street
St Peter Port
GUERNSEY
GY1 4AN

Actuaries:
BWCI Consulting Limited
Actuaries and Consultants
PO Box 68
Albert House
South Esplanade
St Peter Port
GUERNSEY
GY1 3BY

Registered office:
Envoy House
La Vrangue
St Peter Port
GUERNSEY
GY1 1AA

Greffe Registration Number: 38693

CONTENTS

GUERNSEY POST

CHAIRMAN'S STATEMENT

The Board has overcome many challenges in recent years and whilst the industry is such that there are many more to come I am confident that our strategic plan, our dedicated workforce and a strong emphasis on corporate governance put us in an excellent position to respond appropriately.

As part of an extremely challenging industry, in a business which has had no choice but to embrace significant change in recent years, I am delighted to announce a pre-tax profit of £1.1m over the financial year, a c.95% improvement on the previous year. Whilst much of this increase is due to favourable returns on balances held with the States of Treasury, this is nevertheless an excellent result for the Company.

This is the first full year of trading since the departure of the bulk mail businesses who decided to leave Guernsey following the loss of Low Value Consignment Relief (LVCR). Despite this heavy blow, the company remains profitable and has a strategy for growth which will secure its future.

CAPITAL STRUCTURE AND DIVIDEND

Following approval by the States of Deliberation, the Board completed the £3.5m return of capital referred to in my statement last year. This concludes a two-year process which has seen the Company complete a repurchase and cancellation of shares totalling £8.5m. The Board will continue to monitor the capital structure of the organisation in the light of future funding requirements and business risk.

In the context of the overall financial position of the business, and mindful of the capital structure review, the Board is pleased to propose an ordinary dividend in 2013/14 of £750k.

PENSION

At the conclusion of another financial year I must once again comment on the lack of progress that has been made on the future structure of the public sector pension scheme. Whilst acknowledging the fact that mediation seems likely between the respective parties later this year, this is simply an extension of the discussions and no measurable progress has been made. In recent years, the Board has highlighted the fact that the existing pension scheme liability is likely to continue to rise significantly over the coming years as a direct consequence of increased life expectancy and other economic factors outside of the control of the Company. This has been the case, and the situation is only likely to get worse.

The Board considers that the pension scheme in its current form is unsustainable for the Company. In the medium to long term, the Company is extremely unlikely to be able to generate the required returns to service this commitment and reform to ensure that returns are shared more equitably amongst all stakeholders is very urgently required.

REGULATION

The Channel Island Competition and Regulatory Authority (CICRA) licence fee fell by 55% in the financial year, a clear indication of CICRA's ever decreasing involvement in respect of the postal sector. The Board has repeated the view over a number of years that market pressures and the competitive nature of the postal industry are such that the traditional model of Regulation is no longer required. In this regard the Board was supportive when Treasury and Resources announced the creation of a supervisory subcommittee which we understand is part of on an ongoing review of the existing regulatory regime.

THE BOARD

In the last quarter the Company welcomed a new Finance Director, Steve Sheridan, to the Board. Steve has over 20 years' experience in accountancy and financial control, holding a number of senior roles for a variety of firms within the finance industry and commercial sector. The Finance Director role had been filled on an interim basis for the majority of the year by David Jackson and I would like to place on record the Board's thanks for his valued contribution during that time.

I am pleased to report there have been no other personnel changes within the Board over the last twelve months which has meant stability from which we have been able to continue to improve Company performance.

The Board has overcome many challenges in recent years and whilst the industry is such that there are many more challenges to come, I am confident that our strategic plan, our

dedicated workforce and a strong emphasis on corporate governance put us in an excellent position to respond appropriately.

THE FUTURE

Over the next twelve months the Board will continue to focus on the delivery of the Company strategy and specifically seeking long term sustainability to protect the Universal Service Obligation (USO). Whilst the business is currently performing well, the Board is aware that Bulk mail activities represent a significant proportion of turnover. As the numbers of Bulk Mail customers are small, we are very vulnerable in this area of business which is illustrated by the following table:

Revenue Source	£m	%
Bulk Mail	16.3	49
Parcel Delivery	4.2	13
Southbound (excl. packets)	3.3	10
Retail Stamp Sales	2.5	8
Philatelic	1.0	3
Foreign Exchange	0.3	1
Other	5.4	16

Another key focus for the Board is to oversee the expansion of our parcel delivery business, the volume growth of which is generated from online shopping. It is very clear that this area holds the key to our future success and as it grows, we will seek to introduce new services with a greater emphasis on convenience for our customers.

D R Jehan
Chairman
June 2014

"Another key focus for the Board is to oversee the expansion of our parcel delivery business, the volume growth of which is generated from online shopping."

CHIEF EXECUTIVE'S REPORT

At the outset it would be remiss of me not to acknowledge the efforts of the entire team at Guernsey Post, all of whom deserve to be congratulated for their contribution to the business performance.

The financial results detailed in this annual report reflect a business that continues to thrive on successfully adapting to unprecedented change in its core market. In an industry where profit is the exception rather than the norm, we are delighted that our transformation continues to have a positive impact on our performance. At the outset it would be remiss of me not to acknowledge the efforts of the entire team at Guernsey Post, all of whom deserve to be congratulated for their contribution to the business performance.

Perhaps the most pleasing aspect of our performance is the relative stability that we have managed to achieve over a period when our revenues have been under severe pressure, specifically in the aftermath of the loss of Low Value Consignment Relief (LVCR), and the continued decline in core volumes. Our operating profit this year, before FRS17, exceeded £1m which has been the case for the last three consecutive years.

Whilst reflecting on our results it is deeply concerning that the Pension deficit continues to cast a shadow over our achievements. Reform of the Public Sector Pension scheme is long overdue and the issues need to be resolved for the good of the Company, but also for our employees who themselves require certainty and sustainability. Over the coming years the financial challenges we face will be significant enough without having to compensate for this unsustainable drain on the Company's resources.

LETTERS TO PARCELS

We have continued to enjoy exceptional growth in parcel volumes as a direct consequence of the continued boom in internet shopping. Over the financial year the number of parcels delivered increased by 47%, a level of growth which we have come to expect in recent years.

Supporting the growth of internet shopping with innovative and enhanced services is a key element of our strategy. Market research conducted by Island Analysis supports our view that Parcel volumes will continue to grow at a steady pace over the coming years. Most notably this is supported by three key conclusions drawn from the recent 'Island Online Purchase Trends' survey:

- Two thirds of respondents to the survey indicated their expenditure in respect of online shopping had increased in 2013 compared with 2012.
- On average each household is spending £7,300 online. Island Analysis estimate that this spend is equivalent to 29% of maximum market size, suggesting significant potential for further growth.
- Convenience is the main reason that people shop online. Over half of respondents indicated that this was more important than price.

Whilst the growth of internet shopping represents a significant opportunity for the Company, it is acknowledged that at the same time it represents a challenge for bricks and mortar retailers. Indeed we are only too well aware of how challenging the retail sector is given the fact that we are required to operate with a network of sub post offices throughout the Bailiwick. In considering how Guernsey might deal with the conflict between online and physical retail branch operators, a number of commentators have suggested a tax on internet shopping imports, which they believe might act as a mechanism to disincentivise online shopping. The reality is that online shopping is about so much more than just price and to resist it merely masks the fact that traditional retailers need to evolve.

Technology and the online opportunities need to be embraced, a fact underpinned by some of the most successful retailers who have done just that. As this demonstrates, there need be no conflict between online and more

> **Convenience is the main reason that people shop online. Over half of respondents indicated that this was more important than price.**

traditional retailers, they can complement each other which is exactly what we believe our customers want to see.

BULK MAIL

We have continued to work extremely hard to retain the remaining bulk mail clients in Guernsey by expanding our product range, maintaining high quality, and offering competitive prices. The results are encouraging, but whilst there is clear evidence of growth it is important to acknowledge that the efforts of Guernsey Post alone will never be enough to guarantee the retention of this industry in Guernsey. As an example, the availability and cost of land and labour in Guernsey represent a significant challenge to the industry particularly in comparison with competing jurisdictions.

To support the ongoing growth of the bulk mail sector we were pleased to take delivery of two new Siemens sorting machines in the last quarter of the financial year. The investment in this equipment is a clear statement from Guernsey Post that the Company is committed to growth. The new machines will more than double our sorting capacity and provide us with much improved resilience and contingency options.

PHILATELIC

The Philatelic business has enjoyed another good year, albeit under difficult trading conditions as the global recession continues to have an impact on the amount collectors spend on stamps and the frequency with which they buy. Profit increased slightly from £188k in the previous financial year to £209k despite revenue decreasing by £82k.

The Philatelic team continues to push creative boundaries with new product development and last year we were able to announce that Guernsey was the first jurisdiction in Europe to print stamps onto cotton for the Alderney Bayeux Tapestry Finale stamp issue. The Year of the Horse was the first stamp issue in a planned series of twelve to celebrate the Chinese New Year. The issue included two new limited edition products; uncut press sheets and gold foil souvenir sheets. This continues to open up opportunities to attract a more diverse customer base.

Results of our market research clearly indicated that whilst customers are concerned about the cost of stamp collecting they report high levels of satisfaction with the quality of the products, the designs of the stamps and the level of customer service they receive.

Online sales via our website have decreased slightly but sales through the World Online Philatelic Agency (WOPA) have increased compared to last year. Stocks of stamp issues are available for longer via WOPA and the increase in sales though this channel demonstrates a trend for collectors to purchase new issue stamps sometime after issue date.

FOREIGN EXCHANGE

Despite difficult trading conditions our Foreign Exchange business BATIF has bucked the trend of declining sales within the industry. Revenue increased by 4.6% over the financial year, and operating profit rose by 7.7%.

B Smillie

Chief Executive

June 2014

FINANCE DIRECTOR'S STATEMENT

PROFIT AND LOSS ACCOUNT

I am pleased to report a Pre Tax Profit of £1.1m for the financial year ended 31st March 2014, which represents an improvement of £0.5m on the prior year. This improvement was achieved as a direct consequence of improved returns on our balances held within the States of Guernsey Cash and Investment Pool. Nevertheless the result is still pleasing considering that 2013/14 was the first year that the business felt the full impact of the loss of LVCR, with many bulk mailers still remaining well in to 2012/13 as well as the already well documented challenges that the postal industry is facing generally.

Turnover was £1.2m higher at £33.1m for the year, a 3.6% increase on the prior year. This increase was achieved against the backdrop of ongoing double digit declines in our traditional mail volumes which have seen a 13% reduction in local and UK metered and 9% decline in both local and UK stamped mail.

In contrast, mail volumes delivered locally and originating in the UK, Europe and the Rest of the World saw declines of only 3% and continue to evolve from letters to packets and parcels. This is as a direct consequence of the continued growth in customer internet shopping and whilst volumes continued to track downwards, associated revenue streams have grown 5% in the year to £7m.

Royal Mail charges to us rose by 11% in the year. However wherever possible we have absorbed these increases in our UK and International Bulk Mail rates and our headline public and business tariffs which saw a marginal increase of 1p and 2p respectively on our letter and large letter rates. As a business we remain committed to providing an affordable product offering to all our customers and are proud to be able to offer some of the lowest prices within the UK and Europe.

Operating profit of £0.2m fell marginally during the year. However when removing the impact of the FRS17 pension costs and the accounting loss incurred on the disposal of our old sortation machine, on a like for like basis operating profit compared favourably against 2012/13 with an increase in the year of £0.2m.

Expenditure was £1.2m higher at £32.9m for the year, representing an increase of 3%. Royal Mail charges and all other associated conveyance costs contributed £0.7m of this increase and are broadly in line with the associated growth in turnover. Staff expenditure increased by £0.2m to £10.3m which represents a less than 2% increase during the year and lower than RPI. The number of full-time equivalent employees of 222 remained unchanged from prior year. Operating expenditure increased by £0.3m to £3m, albeit with £0.2m of this arising from increased FRS17 pension costs and the accounting loss on disposal of the old sortation machine. Discretionary expenditure remained under control during the year with no notable increases to report. We are continually seeking to identify and deliver costs savings across all areas of the business, where of course such short term savings will not negatively impact the underlying long term strategy of the business.

BALANCE SHEET

Shareholders' funds decreased by c.£4m from £15.4m to £11.3m. The key driver for the reduction was a further £3.5m return of capital to our Shareholder Treasury and Resources paid in December 2013. Disappointingly, reported profit for the year has been more than offset by a further increase in the pension scheme deficit under FRS17.

This financial year has seen the pension deficit increase by a further £3.2m to £14.8m primarily as a result of a change in the underlying assumptions. An important financial factor underlying this change is the relationship between the corporate bond based discount rate and the market derived assumption for future inflation which have both fallen, resulting in an increase in the associated scheme liability. Indeed, it is worthy of note that despite the strong investment performance of the fund assets and ongoing contributions made by both the Company and its employees, the deficit position has almost doubled in size over the past three years from £7.8m in 2011 to £14.8m for this year end.

Whilst our actual cash obligation to pay into the pension scheme is not determined in the short term by the outcome of the FRS17 valuation, the Board continues to be deeply concerned with the widening of the deficit and the direct impact that this has on the Company's profitability and long term financial position.

The Company continues to operate with a

As a business we remain committed to providing an affordable product offering to all our customers and are proud to be able to offer some of the lowest prices within the UK and Europe.

strong Balance Sheet and a healthy liquidity position, with nearly £12m of cash in the bank, £3m of current assets and over £12m fixed asset base, offset by just over £5m of current liabilities.

CASH FLOW STATEMENT

The Company consumed £0.3m of cash during the year, decreasing its cash reserves to £12m.

Operating cashflow was very strong at over £3m in the year, as the Company made strong profits before major non-cash items such as depreciation, amortisation and FRS17 adjustments.

Capital expenditure for the year was £1.1m. The primary investment was £1m on the Company's new sortation machines, with a final payment of £0.7m being made in May 2014.

Interest income receipts were £0.5m higher than prior year at £0.9m and as a consequence of increased yields on funds placed within the States of Guernsey Cash and Investment Pool. A dividend of just over £0.1m was paid during the year.

OUTLOOK

In the short term we are optimistic of achieving a similar operating profit for 2014/15, despite the challenges facing the business with the ongoing decline in traditional mail streams and the difficult environment our remaining bulk customers now operate within as a financial consequence of the loss of LVCR.

This operating profit expectation is based on the exceptional rate of growth in online shopping and packet and parcel deliveries and the significant opportunity this presents for the Company. We will continue to identify and invest in new technology to keep pace with this growth market and look to implement innovative parcel delivery and collection options for our customers in order to maintain competitive advantage in this area.

Additionally, we will continue to build collaborative and sustainable partnerships with our remaining bulk customers in order to support their business requirements by providing a broad and competitively priced mail product offering.

That said, these initiatives alone are not enough to offset the continual revenue decline from letters and as such we are actively reviewing our operational model to adapt to this changing landscape in order to ensure Guernsey Post continues to meet its customer demands whilst at the same time maintaining an exceptional level of service that the local community can be proud of.

S Sheridan

Finance Director

June 2014

ENVIRONMENT REPORT

ENVIROMENT POLICY

Guernsey Post's environmental policy is firmly established and we continually strive to improve the impact of our operations on the local and global environment.

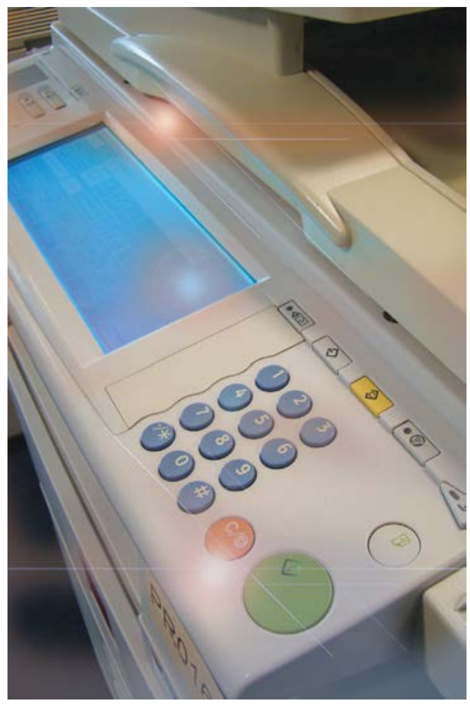
In February 2014 we were presented with the Keep Guernsey Green Award by the States of Guernsey Environment Department for the second time. The award acknowledges our commitment to the environment by utilising best practice in energy conservation and waste management. This involves all areas of the business and is demonstrated by some of these very simply daily tasks:

- Reducing and recycling as much waste as possible.
- Reducing the amount of photocopying and paper usage
- Re-using packaging material
- Using energy efficent computers and machinery

ENERGY CONSUMPTION

Currently under investigation are further ways to reduce our energy consumption. A successful trial, replacing aging light fittings with LED lighting delivered a higher quality of light but also reduced energy consumption by 60%. Alongside this, the replacement of the lighting control system to one which uses movement sensors was simple, making further energy savings of 30%.

A further energy survey is planned which will identify areas where further reductions can be made by either replacing life expired equipment or improving the operation of existing systems using new technology.



CORPORATE SOCIAL RESPOSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

Guernsey Post continues to take seriously its responsibility to support the communities we serve.

As part of our day to day involvement with the community our postal workers are often complimented on their contribution to the wellbeing of the communities they serve. These are often small unreported acts of assistance, such as assisting with replacing flat tyres to more prominent and occasionally life saving issues where first aid and ambulances have been called.

On a formal basis we channel our support for the community through our "Supporting Together" initiative. This initiative gives support to community projects or events that our staff are already involved with – the Company gives an extra boost by supplying financial assistance (most commonly on a matched fund raising basis) or by giving time for employees to achieve their charitable/ community goals.

Below are just a few of the larger events that have taken place during the year. Many smaller projects such as sending old postal uniforms to Africa, distributing Walk to Work leaflets for Livingstreets, taking part in the Saffery Champness Walk and the Pink Ladies Walk are common additions to causes supported.

CHARITABLE CAUSES

- Tours Des Isles Challenge - seven "Posties" took part in an 80 mile cycling tour of the Channel Islands, using only post bikes in the aim to increase awareness of The Family Placement Service and the Guernsey Foster Care and Adoption Association. They raised over £1000.

- Bath Half Marathon - run by 'The Blasters' a team of five postal workers, raised funds for Guernsey Headway, - they placed 1st out of 60 corporate teams and raised over £1000.

- 90 mile challenge - Postie Mark Henry embarked on a gruelling 48 hour, 90 mile challenge in memory of Sarah Groves. The 90 mile challenge involved kayaking (27 miles), cycling (23 miles) and walking (40 miles) around the coastline of Guernsey. Mark raised over £5,000 for the Sarah Grove's Memorial Fund and Childrenreach International.

COMMUNITY PROJECTS

- Herm Britain in Bloom - a team of Guernsey Post staff helped prepare for the Britain in Bloom Champion of Champions' competition, which Herm won.

- Christmas Cards for the aged - working with the Guernsey Voluntary Service we helped spread a little Christmas cheer. Joining forces again this year we offered the recipients of the Charity's Meals on Wheels service another opportunity to have all of their Christmas cards delivered to friends and family within the Bailiwick free of charge.

BOARD PROFILE

Dudley Jehan | Chairman

Born and educated in Guernsey, Dudley Jehan trained as a Meteorologist with the Air Ministry, working at Heathrow and Guernsey Airports before joining the British Antarctic Survey in 1960. During his four-year posting he was appointed Base Commander Halley and was awarded a Polar Medal by Her Majesty the Queen for outstanding contribution to science and discovery.

On returning to Guernsey he began a career in commerce, retiring in 2003 as Chief Executive of the Norman Piette Group of eight Channel Island trading companies serving the construction and home improvement sectors. He remains NP Group's Chairman today.

He was appointed the first Chairman of Guernsey Telecoms Limited, has held a number of non-executive directorships and has been a non-States Member for over 25 years. He is currently a member of the Housing Department.

Boley Smillie | Chief Executive

Born and raised in Guernsey, Boley Smillie joined Guernsey Post in 1991 straight from his secondary education at La Mare de Carteret School. The subsequent twenty three years have seen him gain a wide range of experience in different roles, rising through the ranks of the Company. Initially employed as a clerical assistant he moved to Customer Services, then on to Logistics before being promoted to Head of Letters and Parcels in 2004. He became Operations Director in 2007 and an Executive Director in April 2010. In July 2010 he was appointed interim Chief Executive before taking the role on a permanent basis in September 2010.

During this time he has added to his hands on experience by undertaking a number of professional qualifications, including certificates in marketing and business and finance. Most recently he was awarded the certificate in company direction from the Institute of Directors.

Steve Sheridan | Finance Director

Steve Sheridan was born and educated in Nottingham, before work opportunities brought him to Guernsey in 1993.

He has over 20 years' experience in accountancy and financial control, holding a number of senior roles for a variety of firms within Insurance, Fiduciary, Retail and the Banking industries. He qualified in 2004 before joining All in Black as their Financial Controller and General Manager. During his time in this role, he was successful in creating an effective management reporting solution for the business, out of which a number of key rationalisation initiatives were undertaken.

His next role took him to Credit Suisse, where he held a variety of positions, one of which was part of a project team tasked to ensure the successful deployment of their Financial Accounting function to its offices in India. More latterly Steve was employed within the Private Banking and Asset Management Division where he held the position of Head of Financial Management for the Channel Islands.

Steve brings with him a wealth of accountancy and financial control knowledge as well as a strong commercial acumen.

Steve was appointed Finance Director with Guernsey Post in early 2014.

Andrew Duquemin | Non-Executive

Andrew Duquemin has a degree in Accounting and Finance and qualified as a Chartered Accountant in 1983. He has extensive experience in the listing of companies on both the London Stock Exchange and The Channel Islands Stock Exchange. He is also a director of Corporate Consultants Limited, a Guernsey based consultancy business that has provided corporate finance and management consultancy services since 1991.

He is Chairman of Elysium Fund Management Limited, a company providing fund management, administration and corporate finance services to a range of funds and trading companies. Elysium was formed in October 2006 to complete the management buyout of the business of Collins Stewart Fund Management Limited, a Guernsey registered company and wholly owned subsidiary of Collins Stewart Tullett plc, where Andrew was managing director.

Andrew sits on the boards of several local trading companies, a London-based investment bank and a recently formed P2P business. He is also a Fellow of the Chartered Institute for Securities & Investment and holds the advanced diploma in Corporate Finance.

Steve Hannon | Non-Executive

Steve Hannon has over 40 years' experience in the postal industry. For the majority of that time he worked for Royal Mail where he managed several multi million pound, high profile national projects including the introduction of postal automation, a new rail, road and air network, rationalising and revamping London's mail centre infrastructure and planning the nationwide introduction of the single letter delivery.

He also spent a two-year period as a divisional General Manager responsible for a workforce of 13,000 people and an annual budget of £400m. During this time he covered the complete range of management functions embracing sales, customer services, finance, human resources, planning and operations.

Since leaving Royal Mail in 2003 he has undertaken consultancy work in the postal field and became a director of Postal and Logistics Consulting Worldwide. He was appointed Chief Executive of the Company in 2008.

Between July 2006 and February 2007 he undertook the role of Interim Chief Executive of Guernsey Post.

Simon Milsted | Non-Executive

On qualification as a Chartered Accountant in 1982 Simon Milsted joined the London City office of Price Waterhouse during which time he was engaged on a series of special assignments for the Bank of England. Two consecutive assignments took him to the West Country, following which he moved his young family westwards transferring permanently to Price Waterhouse's Bristol office.

In 1988, Simon co-founded an independent firm of Chartered Accountants that soon became one of the fastest growing and most well respected independent firm of advisers in the South West, bringing a high level of specialist and consulting advice to the owner-managed business community across the region.

In 1995, Simon invested in and became non-executive chairman of the BSI Group, a business process outsource specialist in the business travel sector, which became the European leader in its field. Over more recent years, Simon has held office as Regional President of the Institute of Chartered Accountants in England and Wales, sat on a number of Government sponsored business support bodies and was a governor and non-executive treasurer of a leading South West public school.

Since his move to Guernsey in 2010, Simon has pursued an active engagement with businesses and not for profit organisations on the Island both in an advisory capacity and as principal.

Stuart Le Maitre | Non-Executive

Stuart Le Maitre was born and educated in Guernsey. Following a brief period of employment at the Guernsey Post Office he studied in Bristol and obtained a degree in Education and a post graduate qualification in Careers Guidance. He held a senior position in the Careers Service at Buckinghamshire County Council for five years before returning to join the Civil Service in Guernsey, and held senior positions for the next 20 years.

During this time, his responsibilities included the development and oversight of departments responsible for industrial relations and employment legislation, trading standards and consumer affairs, health and safety in the work place and initiatives to support the development of the non-finance sector of the Island's economy. Having worked on the development of the regulatory framework for the Bailiwick of Guernsey and the establishment of the Office of Utility Regulation, he was also involved in the commercialisation of the States' Trading Utilities.

On leaving the Civil Service, Stuart undertook a variety of Consultancy assignments and in 2006 was appointed as Chief Operating Officer with responsibility for the set up phase of new local mobile telephone company. More recently he held the position of Chief Executive of the Medical Specialist Group in Guernsey until he resigned from this post in June 2013. He has recently taken up the position of Managing Director of the Guernsey Enterprise Agency and also holds other local board positions.

CORPORATE GOVERNANCE REPORT

COMPLIANCE

The Combined Code on Corporate Governance 2006 (the Code) outlines the main principles and provisions that companies should adopt in relation to corporate governance. This report describes Guernsey Post's compliance with the Code. Guernsey Post is committed to the development of a sustainable and profitable business that benefits all stakeholders, which includes achieving the highest standards of corporate governance for our Shareholder, the States of Guernsey.

Guernsey Post has signed a Memorandum of Understanding with Treasury & Resources that sets out the rights, expectations and duties of both parties and includes the requirement to comply with best practice on corporate governance. Guernsey Post has continued to work on its corporate governance programme during the financial year ending 31 March 2014, and the achievements are summarised in this report.

THE BOARD

DIRECTORS

The Board's role is to provide entrepreneurial leadership of the Company within a prudent and effective framework of risk management and internal control. The Board is responsible for setting and implementing strategy, allocating the necessary human and financial resources to meet the Company's objectives and monitoring the performance of management against those objectives. The Board is collectively accountable for the success of the Company, sets its values and standards and takes decisions objectively in the interests of the Company, its Shareholder and other stakeholders.

Non-executive directors help to develop and challenge the Company's strategy. They evaluate the performance of management and monitor the reporting of performance. They consider the integrity of financial information and the strength of financial controls and risk management systems. They oversee executive remuneration and play the main role in the appointment, removal and succession planning for executive directors.

Matters referred to the Board are governed by a scheme of delegated authorities that provides the framework for the decisions to be taken by the Board, those which must be referred back to our Shareholder and those which can be delegated to Committees of the Board or senior management.

There were nine board meetings held during 2013/14. If a Board member cannot attend a meeting, he or she receives a copy of the agenda and the accompanying papers in advance of the meeting and is invited to comment on the matters to be discussed.

The names of the members of the Board Committees are set out on pages 19 and 20, together with details of their background. The Board Committees have authority to make decisions according to their terms of reference.

CHAIRMAN AND CHIEF EXECUTIVE

Guernsey Post has a non-executive Chairman and a Chief Executive. There is a clear division of responsibility between the two positions, with the Chairman responsible for the running of the Board and the Chief Executive responsible for the running of the Company's business.

Dudley Jehan spends, on average, one day per week in his role as Chairman. He is also Chairman of the Norman Piette Group. The Board considers that his external directorships do not make conflicting demands on his time as Chairman.

Andrew Duquemin is the senior independent director and is available to talk to our Shareholder if it has any issues or concerns.

BOARD BALANCE AND INDEPENDENCE

Throughout the year the Company has had a balance of independent non-executive directors on the Board who ensure that no one person has disproportionate influence. All the non-executive directors bring with them significant commercial experience from different industries, which ensures that there is an appropriate balance of skills on the Board.

There are currently five non-executive directors and two executive directors on the Board.

APPOINTMENTS TO THE BOARD

Recommendations for appointments to the Board are the responsibility of the Nominations Committee. The appointment of non-executive directors has to be ratified by the States of Deliberation.

The Nominations Committee meets quarterly to consider the balance of the Board, job descriptions and objective criteria for board appointments and succession planning.

INFORMATION AND PROFESSIONAL DEVELOPMENT

For each scheduled board meeting the Chairman and the Company Secretary ensure that, during the week before the meeting, the directors receive a copy of the agenda for the meeting, financial, strategic and operating information and information on any other matter which is to be referred to the Board for consideration. The directors also have access to the Company Secretary for any further information they require. In the months where there is no scheduled board meeting, the directors receive the prior month and cumulative Company financial and operating information.

All newly appointed directors participate in an extensive internal induction programme that introduces the director to the Company and includes visits to key stakeholders. The Company Secretary gives guidance on board procedures and corporate governance.

The Company Secretary, who is appointed by the Board and is also the Finance Director and an Executive Director, is responsible for ensuring compliance with board procedures. This includes recording any concerns relating to the running of the Company or proposed actions arising there from that are expressed by a director in a board meeting. The Company Secretary is also secretary to the Remuneration and Nomination Committees. The Company Secretary is available to give ongoing advice to all directors on board procedures, corporate governance and regulatory compliance.

ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS

Attendance during the year for all board and board committee meetings is given in the table below:

ATTENDANCE AT BOARD COMMITTEE MEETINGS (A)

	Board	Audit Committee
Dudley Jehan	8/9	
Boley Smillie	9/9	
Richard Hemans	3/3	
Stephen Sheridan	2/2	
Steve Hannon	9/9	
Andrew Duquemin	7/9	2/2
Simon Milsted	9/9	2/2
Stuart Le Maitre	9/9	

	Nominations Committee	Remuneration Committee
Dudley Jehan		
Boley Smillie		
Richard Hemans		
Stephen Sheridan		
Steve Hannon	4/4	4/4
Andrew Duquemin		
Simon Milsted		
Stuart Le Maitre	4/4	4/4

(A) The first figure represents attendance and the second figure the possible number of meetings e.g. 5/6 represents attendance at 5 out of a possible 6 meetings. Where a director stepped down from the Board or a Board Committee during the year, or was appointed during the year, only meetings before stepping down or after the date of appointment are shown.

PERFORMANCE EVALUATION

The Board undergoes an annual evaluation of its performance. The evaluation consists of a confidential questionnaire, which is independently assessed, and a report that is then submitted to the Board, followed by an open discussion facilitated by the Chairman.

ELECTION AND RE-ELECTION OF DIRECTORS

Guernsey Post Limited's articles state that a non-executive director should be proposed for re-election if he or she has been appointed to the Board since the date of the last AGM, or proposed for re-election if he or she has held office more than three years at the date of the notice convening the next AGM. The Board ensures that each non-executive director submits himself or herself for re-election by Shareholder at least every three years.

Non-executive directors serve the Company under letters of appointment, which are generally for an initial three year term. Their appointment is also ratified by the States of Deliberation.

At the 2014 AGM, Dudley Jehan and Stuart Le Maitre are being recommended by the Board and will be proposed for re-election.

REMUNERATION

The Board recognises the importance of executive directors' remuneration in recruiting, retaining and motivating the individuals concerned. Executive directors' remuneration consists of basic salary, benefits in kind, bonus and retirement benefits. Fees for the Chairman and non-executive directors are determined by Treasury & Resources.

The Remuneration Committee, which is chaired by Stuart Le Maitre, consists of two non-executive directors and determines remuneration levels and specific packages appropriate for each executive director, taking into account the Group's annual salary negotiations. No director is permitted to be present when his own remuneration is being discussed, or to vote on his own remuneration. The Remuneration Committee considers that the procedures in place provide a level of remuneration for the directors which is both appropriate for the individuals concerned and in the best interests of the Shareholder.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The intention of the Annual Report is to provide a clear assessment of the performance and prospects of Guernsey Post Limited. The Company has a comprehensive system for reporting financial results to the Board. An annual budget is prepared and presented to the Board for approval. During the year, monthly management accounts, including balance sheet, cash flow and capital expenditure reporting, are prepared with a comparison against budget and prior year. Forecasts are revised quarterly in the light of this comparison and are also reviewed by the Board.

INTERNAL CONTROL AND RISK MANAGEMENT

All directors are responsible for establishing and maintaining an effective system of internal control. Whilst all elements of risk cannot be eliminated, the system aims to identify, assess, prioritise and where possible, mitigate the Company's risks. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's systems are designed to provide the Board with reasonable assurance that assets are safeguarded, transactions are properly authorised and recorded and that material errors and irregularities are either prevented or detected within a timely period.

In 2012, the Audit Committee considered the need for an internal audit function and concluded that the financial position, size and complexity of the Company could not justify the expense, which the Board ratified. The Board is happy to continue relying on the strength of the internal control environment through updates on risk management and internal control, health and safety reports, AML and CFT compliance, monthly management information and representations from the Executive Team.

AUDIT COMMITTEE AND AUDITOR

The Board has delegated responsibility to the Audit Committee for reviewing an effective system of internal control and compliance, accurate external financial reporting, fulfilling its obligations under the law and the Code, and managing the Company's relationship with the Company's external auditor.

The Committee members comprise independent non-executive directors. Andrew Duquemin, who is a qualified accountant, was appointed as the chairman of the Audit Committee and the Board is satisfied that Andrew has recent and relevant financial experience to enable the duties of the Committee to be fully discharged. Simon Milsted is the other member of the Audit Committee. Simon is a qualified accountant with wide experience of owning and managing trading companies.

The Audit Committee went out to tender for the Company's external auditors during 2012/13 and following a rigorous process, the Audit Committee recommended the re-appointment of KPMG on a rolling one-year basis, which was ratified by the Board and the Shareholder and which will continue for 2014/15.

CORPORATE GOVERNANCE REPORT

The Committee meets once a year with representatives of the Company's external auditor, and the Chief Executive and the Finance Director also attend the meetings.

SHAREHOLDER RELATIONS

The Board believes that good communication with the Shareholder is a priority. There are regular meetings between the Chief Executive and the Finance Director of Guernsey Post, and the Chief Officer and Chief Accountant of Treasury & Resources. The Company presents its strategic plan to our Shareholder for approval every year.

The Chairman and senior independent director are available to meet with our Shareholder should there be unresolved matters that our Shareholder believes should be brought to its attention. The Executive Team and the non-executive directors meet with our Shareholder at the AGM.

The date of the AGM is agreed with our Shareholder and ten days working notice is given. The AGM is chaired by Guernsey Post, with presentations made by the Executive Team to facilitate awareness of the Company's activities and its financial performance. Our Shareholder is given the opportunity to ask questions of the Board and the Chairman of each board committee during the AGM.

COMMITTEES OF THE BOARD AND MAIN TERMS OF REFERENCE

In addition to regular scheduled board meetings, the Company operates through various board committees, of which the membership and main terms of reference are set out below (except the Audit Committee which is outlined above).

Stuart Le Maitre is the Chairman of the Nominations Committee, supported by Steve Hannon. The main terms of reference of this Committee are to review regularly the structure, size and composition of the Board and to make recommendations on the role and nomination of directors for appointment to the Board, Board Committees and as holders of any executive office. The Committee met four times in 2013/14 and all members of the Committee were present.

Stuart Le Maitre is also the Chairman of the Remuneration Committee, supported by Steve Hannon. The main terms of reference of this Committee are to determine and agree with the Board the remuneration policy for the Company's Executive Team, to approve the design of, and determine targets for, any performance related pay schemes operated by the Company and to determine the policy for, and scope of, pension arrangements for each executive director. The Committee met four times in 2013/14 and all members of the Committee were present.

Andrew Duquemin is the Chairman of the Pensions Committee, supported by Simon Milsted, the Chief Executive and the Finance Director. The main terms of reference of this Committee are to review and make recommendations to the Board on the Company's retirement and post-retirement benefit arrangements including the control and funding of such arrangements. Given the importance and scale of the pension issues facing the Company, the full Board considered regularly the pension scheme arrangements at its meetings, and the Pension Committee advised the Board on the development of strategic options to reorganise the pension scheme given the likely increase in its cost, and the uncertainty it creates for the Company.

DIRECTOR'S REPORT

The directors present their annual report together with the financial statements for the year ended 31 March 2014.

PRINCIPAL ACTIVITIES

The Company's principal activity is the provision of a postal service for the Bailiwick of Guernsey through a postal network and retail counter operation in accordance with the licence awarded to it by the Chief Executive of the Channel Islands Competition and Regulatory Authority (formerly the Office of Utility Regulation). The Company also markets its postage stamps and other philatelic products to stamp collectors worldwide.

SIGNIFICANT EVENTS

Following a comprehensive review in June 2013 of the Company's cash position, future profitability and cash flows, major risks and funding requirements over the medium term, the Board concluded that the Company had surplus capital that it could not profitably deploy and that it would be more efficient to return it to the Shareholder. Accordingly, with the agreement of the States of Guernsey, the Company returned £3.5m to Treasury & Resources in December 2013 by way of a share buy-back.

RESULTS

The results for the year are shown in the profit and loss account on page 25*.

DIVIDEND

The directors recommend a dividend of £750k for the financial year (2013: £139k).

FIXED ASSETS

Fixed asset movements for the year are disclosed in note 7 to the financial statements.

DIRECTORS

The directors of the Company, who served throughout the year and at the date of this report, were as follows:

D R Jehan

B Smillie

R J Hemans (resigned 31 July 2013)

S Sheridan (appointed 3 February 2014)

S Hannon

A Duquemin

S Le Maitre

S Milsted

No director has an interest either beneficially or nonbeneficially in any shares of the Company (2013: no interest beneficially or nonbeneficially).

In accordance with the Articles of Association D R Jehan and S Le Maitre are due to retire by rotation and being eligible offer themselves for reelection at the forthcoming AGM.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008 and the Post Office (Guernsey) Law 1969. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

KPMG Channel Islands Limited has expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

B Smillie	D R Jehan
Chief Executive	Chairman

These page numbers refer to the original Financial Statements document approved by the auditors.

KPMG

20 New Street, St. Peter Port, Guernsey, GY1 4AN

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GUERNSEY POST LIMITED

We have audited the financial statements of Guernsey Post Limited (the "Company") for the year ended 31 March 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008 and section 10(1) of the Post Office (Guernsey) Law, 1969. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 22*, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its profit for the year then ended;
- are in accordance with United Kingdom Accounting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG Channel Islands Limited

Chartered Accountants

**These page numbers refer to the original Financial Statements document approved by the auditors.*

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2014

	Notes	**31 March 2014 £'000**	31 March 2013 £'000
Income		**33,140**	31,978
Expenditure		**(32,889)**	(31,710)
Operating profit	2	**251**	268
Other income			
Interest receivable	3	**899**	416
Rents receivable		**87**	62
Profit on ordinary activities before net loss on pension scheme		**1,237**	746
Net loss on pension scheme		**(153)**	(190)
Profit on ordinary activities before taxation		**1,084**	556
Taxation credit	4	**86**	129
Profit for the financial year		**1,170**	685

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2014

	Notes	**31 March 2014 £'000**	31 March 2013 £'000
Profit for the financial year		**1,170**	685
Actuarial (loss) / gain recognised in the pension scheme	17	**(2,232)**	1,600
Unrealised gain on revaluation of investment properties	8	**140**	-
Increase/(decrease) in deferred tax asset on actuarial gains and losses	12	**446**	(320)
Total recognised (losses) and gains relating to the year		**(476)**	1,965

All activities derive from continuing operations

The notes on pages 19 to 31 (*28 to 47) form an integral part of these financial statements.

**These page numbers refer to the original Financial Statements document approved by the auditors.*

BALANCE SHEET

As at 31 March 2014

	Notes	**31 March 2014 £'000**	31 March 2013 £'000
Fixed assets			
Intangible assets	6	**215**	269
Tangible assets	7	**11,394**	11,253
Investment properties	8	**1,040**	900
Investment in subsidiaries	9	**-**	-
		12,649	12,422
Current assets			
Stock		**169**	156
Debtors	10	**3,296**	2,450
Cash at bank and in hand	16	**11,994**	12,336
		15,460	14,942
Creditors: Amounts falling due within one year	11	**(5,126)**	(2,842)
Net current assets		**10,333**	12,100
Total assets less current liabilities		**22,982**	24,522
Provisions for liabilities and charges	12	**141**	146
Net assets excluding pension liability		**23,123**	24,668
Net pension liability	17	**(11,832)**	(9,262)
Net assets including pension liability		**11,291**	15,406
Capital and reserves			
Share Capital	13	**13,886**	17,386
Profit and loss account	14	**(2,720)**	(1,965)
Revaluation reserve	14	**125**	(15)
Shareholders' funds	15	**11,291**	15,406

The financial statements were approved by the Board of Directors and authorised for issue on XX June 2014.
They were signed on its behalf by:

B Smillie
Chief Executive

DR Jehan
Chairman

The notes on pages 19 to 31 (*28 to 47) form an integral part of these financial statements.

**These page numbers refer to the original Financial Statements document approved by the auditors.*

CASH FLOW STATEMENT

For the year ended 31 March 2014

	Notes		**31 March 2014 £'000**		31 March 2013 £'000
Net cash inflow from operating activities	16		**3,517**		992
Returns on investments and servicing of finance					
Interest received		**872**		382	
Rent received		**106**		62	
Net cash inflow from returns on investments and servicing of finance			**978**		444
Taxation			**(88)**		108
Capital Expenditure					
Purchase of fixed assets		**(1,110)**		(295)	
Sale of fixed assets		**-**		5	
Net cash outflow from capital expenditur			**(1,110)**		(290)
Repurchase of share capital	13		**(3,500)**		(5,000)
Dividend paid	5		**(139)**		(89)
(Decrease)/increase in cash	16		**(342)**		3,835

The notes on pages 19 to 31 (*28 to 47) form an integral part of these financial statements.

**These page numbers refer to the original Financial Statements document approved by the auditors.*

NOTES TO THE FINANCIAL STATEMENTS (year ended 31 March 2013)

1. STATEMENT OF ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements give a true and fair view, have been prepared in accordance with applicable United Kingdom Accounting Standards and are in compliance with the Companies (Guernsey) Law, 2008.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold investment properties.

Income

Sales of stamps and the crediting of franking machines are accounted for on a receipt of funds basis. All other income is accounted for on an accruals basis.

Expenses

Postal operations expenses are charged as incurred. No provision is made for any charges which may be incurred in handling or delivering mail in respect of stamps and franking machine credits sold but unused at the balance sheet date.

Deferred Taxation

Provision for deferred taxation is made in full on timing differences which result in an obligation at the balance sheet date to pay tax at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. The pension scheme deficit shown in the balance sheet is net of the deferred tax asset.

Pension costs

The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. Such variations are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated remaining working life of the scheme members. The scheme is funded with assets of the scheme held separately from those of the Company.

The employees' pension scheme is a defined benefit scheme. The Company applies Financial Reporting Standard 17, "Retirement Benefits" ("FRS 17"). In accordance with FRS 17 current service costs and any post service costs are charged to the profit and loss account, together with the finance costs and income for the scheme. Actuarial gains and losses are recognised in full in the statement of total recognised gains and losses for the period in which they occur. Pension scheme assets are measured using market values for quoted securities, the current bid price is taken as market value. Pension scheme liabilities are measured using the projected unit credit method, with an actuarial valuation being carried out each year at the balance sheet date. The retirement benefit deficit in the scheme, net of the related deferred tax asset, is recognised as net pension liability in the balance sheet.

Dividends

Dividends are accounted for when they are paid.

Stock

The cost of definitive stamps, including the non-value indicator self-stick range, is written off over the expected sales life of each type of stamp, which is unlikely to exceed three years. Commemorative stamp costs are fully written off in the year of issue.

Other stocks are valued at the lower of cost and net realisable value.

Intangible assets - goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is ten years. An impairment review is carried out every year and any necessary provision made.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful economic life. A full year's depreciation is charged in the year of acquisition.

	Estimated life in years	Depreciation % per annum
Freehold land	N/A	Nil
Freehold buildings	30 - 50	2 -3.3
Plant and equipment	15	6.67
Leasehold improvements	8	12.5
Furniture and fittings, office equipment and postal machinery	3 - 13	7.7 - 33.3
Transport	5	20

Investment Properties

A full external valuation is obtained at least every five years with an interim external valuation in year 3. Interim valuations in years 1, 2 and 4 may be carried out if the directors consider it is likely that there has been a material change in value. Revaluation surpluses or deficits on individual properties are transferred to the revaluation reserve. Depreciation is not provided in respect of freehold investment properties.

Investment in subsidiaries

The investment in subsidiaries is stated at cost. The subsidiaries have not been consolidated on the basis that they are dormant, and non-consolidation does not have a material impact on these financial statements.

Foreign currency

Foreign currency held in German and Dutch bank accounts is translated at the exchange rate prevailing at the balance sheet date. Gains or losses are taken to the Profit and Loss account at the time of translation. All foreign trading transactions are translated into sterling using the prevailing rate on the date of the transaction.

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2014)

2. Operating profit

Operating profit is stated after charging:

	31 March 2014 £'000	31 March 2013 £'000
Staff costs	**10,316**	10,151
Auditors' remuneration		
Audit Fees	**33**	30
Other services	**-**	-
Amortisation of goodwill	**54**	54
Directors' remuneration	**317**	385
Loss/(profit) on disposal of fixed assets	**140**	(4)
Depreciation of tangible fixed assets	**828**	809

Average full time equivalent employee numbers for the period were as follows:

	31 March 2014	31 March 2013
Operational staff including postmen and women, post office counter staff and philatelic production staff	**175**	177
All other staff	**47**	45
Total	**222**	222

3. Interest receivable

	31 March 2014 £'000	31 March 2014 £'000
States Treasury	**893**	414
Other	**6**	2
	899	416

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2014)

4. Taxation

	Notes	31 March 2014 £'000	31 March 2013 £'000
Current year tax		**101**	122
Prior year tax		**4**	(17)
Deferred tax credit for the year	12	**(191)**	(234)
		(86)	(129)

Guernsey Post Limited as a Guernsey Utility Company regulated by the Channel Islands Competition and Regulatory Authority (CICRA) is subject to the standard rate of income tax of 20% on its regulated income and 0% on its non regulated income. The basis of assessment to Guernsey tax continues to be on actual current year basis.

The actual tax credit differs from the expected tax charge computed by applying the standard rate of Guernsey income tax of 20% as follows:

	31 March 2014 £'000	31 March 2013 £'000
Profit on ordinary activities before taxation	**1,084**	556
Tax at 20%	**217**	111
Effects of adjusting items:		
Timing differences	**25**	44
Sundry adjustment to prior years' tax	**4**	(17)
Disallowed expenses	**44**	14
Rate differences on current tax	**(381)**	(237)
Adjustment for pension costs	**196**	190
Current tax charge	**105**	105
Deferred tax - pension deficit	**(196)**	(190)
Deferred tax - timing differences	**5**	(44)
Profit and loss taxation credit	**(86)**	(129)

5. Dividends on equity shares

Amounts recognised as distribution to equity holders in the period.

	31 March 2014 £'000	31 March 2013 £'000
Final dividend for the year ended 31 March 2013 of 0.008p (31 March 2012 0.004p)	**139**	89

The board is proposing a final dividend of £750k of pre-tax profit for the year ended 31 March 2014. (2013: £139k).

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2014)

6. Intangible assets - Goodwill

	£'000
Cost	
At 1 April 2013 & 31 March 2014	543
Amortisation	
At 1 April 2013	274
Charge for the year	54
At 31 March 2014	328
Net book value	
At 31 March 2013	269
At 31 March 2014	**215**

The goodwill arose on the acquisition of the trade and net assets of BATIF Bureau de Change Limited in 2008.

NOTES TO THE FINANCIAL STATEMENTS **(continued)** (year ended 31 March 2014)

7. Tangible fixed assets

	1 April 2013 £'000	Additions £'000	Written off / disposals / transfers £'000	**31 March 2014 £'000**
Cost				
Freehold land	2,505	-	-	**2,505**
Freehold buildings	8,605	10	-	**8,615**
Plant and equipment	2,662	-	-	**2,662**
Leasehold improvements	394	-	-	**394**
Furniture and fittings	301	40	-	**341**
Office equipment	1,233	74	(281)	**1,026**
Postal machinery	2,403	977	(1,901)	**1,479**
Transport	1,118	9	(90)	**1,037**
	19,221	1,110	(2,272)	**18,059**

	1 April 2013 £'000	Charge for the year £'000	Written off / disposals / transfers £'000	**31 March 2014 £'000**
Depreciation				
Freehold land	-	-	-	**-**
Freehold buildings	1,773	176	-	**1,949**
Plant and equipment	1,769	255	-	**2,024**
Leasehold improvements	238	49	-	**287**
Furniture and fittings	165	29	-	**194**
Office equipment	993	85	(278)	**800**
Postal machinery	2,138	124	(1,764)	**498**
Transport	893	110	(90)	**913**
	7,969	828	(2,132)	**6,665**
Net book value	11,253	-	-	**11,394**

Freehold land with a value of £2,505,000 (2013: £2,505,000) is not depreciated.

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2014)

8. Investment properties

	Market Value 31 March 2014 £'000	Market Value 31 March 2013 £'000
At 1 April 2013	**900**	900
Revaluations during the period	**140**	-
At 31 March 2014	**1,040**	900

Investment properties, which are all freehold, have been valued on an open market existing use basis at 4 April 2014 by Watts & Co Limited. Such properties are not depreciated.

9. Investment in subsidiaries

	31 March 2014 £'000	31 March 2013 £'000
Independent Delivery Solutions Limited	-	-
BATIF Bureau de Change Limited	-	-
	-	-

Guernsey Post Limited owns all the share capital, consisting of two fully paid up £1 shares (2013: two fully paid up £1 shares) in Independent Delivery Solutions Limited. This is a dormant company and has never traded. Guernsey Post Limited pays the administration costs for this company.

On 1 April 2008 the Company acquired 100% of the issued share capital of BATIF Bureau de Change Limited, which consists of 100 fully paid up £1 shares. Upon acquisition, the trade and net assets of BATIF Bureau de Change Limited were transferred to Guernsey Post Limited and BATIF Bureau de Change Limited changed to a dormant company. Guernsey Post Limited pays the admininstration costs for this company.

10. Debtors

	31 March 2014 £'000	31 March 2013 £'000
Trade debtors	**2,827**	2,030
Less: Provision for bad debt	**(42)**	(49)
Other debtors	**24**	169
Prepayment and accrued income	**426**	266
Interest receivable	**61**	34
Taxation recoverable	**-**	-
	3,296	2,450

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2014)

11. Creditors

	31 March 2014 £'000	31 March 2013 £'000
Amounts falling due within one year		
Trade creditors	**1,905**	1,451
Other creditors	**2,681**	981
Accruals and deferred income	**418**	337
Rental income paid in advance	**33**	-
Taxation payable	**89**	73
	5,126	2,842

12. Provision for liabilities and charges

	Deferred taxation - Accelerated Capital Allowances £'000	Deffered taxation - Pension Deficit/surplus £'000	Total £'000
At 1 April 2013	(146)	(2,315)	(**2,461**)
Charged to statement of total recognised gains and losses	-	446	**446**
Debit/(credit) to profit and loss account	5	(196)	**(191)**
At 31 March 2014	(141)	(2,957)	**(3,098)**

Deferred tax in the financial statements is measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. As a Guernsey Utility Company regulated by CICRA, Guernsey Post Limited is subject to tax at 20% on its regulated income and 0% on its non-regulated income.

The provision for liabilities and charges in the balance sheet excludes the deferred tax asset of £2.957m relating to the pension scheme deficit. The pension scheme deficit in the balance sheet is shown net of this deferred tax asset.

13. Share capital

	31 March 2014 £'000	31 March 2013 £'000
Authorised		
40,000,000 ordinary shares of £1 each	**40,000**	40,000
Allotted, called-up and fully-paid		
13,886,000 ordinary shares of £1 each (2013: 17,386.000)		
Opening share capital at 1 April 2013	**17,386**	22,386
Repurchase of share capital	**(3,500)**	(5,000)
As at 31 March 2014	**13,886**	17,386

100% of the shares of the Company are owned beneficially by the States of Guernsey.

On 28 January 2013, the Board approved the re-purchase and subsequent cancellation of £5m of its share capital as a means of returning surplus cash to its Shareholder. The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 decreed that it was conditional on express authorisation by resolution of the States of Deliberation, which was obtained on 13 December 2012.

On 4 June 2013, the Board approved the further re-purchase and subsequent cancellation of £3.5m of its share capital.

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2014)

14. Reserves

	31 March 2014 £'000	31 March 2013 £'000
Profit and loss account		
Opening reserves at 1 April 2013	**(1,965)**	(3,841)
Retained profit for the year	**1,170**	685
Actuarial profit/(loss) for the year, net of movement in deferred tax	**(1,786)**	(1,280)
Dividend paid	**(139)**	(89)
As at 31 March 2014	**(2,720)**	(1,965)

Revaluation reserve	**31 March 2014 £'000**	31 March 2013 £'000
Opening reserves at 1 April 2013	(15)	(15)
Unrealised gain on revaluation of investment properties	**140**	-
As at 31 March 2014	**125**	(15)

15. Reconciliation of movement in shareholders' funds

	31 March 2014 £'000	31 March 2013 £'000
Profit for the financial year	**1,170**	685
Actuarial (loss)/gain recognised in the pension scheme	**(2,232)**	1,600
Increase/(decrease)in deferred tax asset on actuarial gains and losses	**446**	(320)
Repurchase of share capital	**(3,500)**	(5,000)
Unrealised gain on revaluation of property	**140**	-
Dividend paid on equity shares	**(139)**	(89)
Net reduction in shareholders' funds	**(4,115)**	(3,124)
Opening shareholders' funds	**15,406**	18,530
Closing shareholders' funds	**11,291**	15,406

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2014)

16. Reconciliation of operating profit to net cash inflow from operating activities

	31 March 2014 £'000	31 March 2013 £'000
Operating profit	**251**	268
Depreciation charges	**829**	809
Amortisation	**54**	54
Net pension scheme service costs	**827**	761
(Increase) / decrease in stock	**(14)**	64
(Increase) / decrease in debtors	**(838)**	3,440
Loss/(profit) on disposal of fixed assets	**140**	(4)
Increase / (decrease) in creditors	**2,269**	(4,400)
Net cash inflow from operating activities	**3,517**	992

Reconciliation of net cash inflow to movement in net funds

	31 March 2014 £'000	31 March 2013 £'000
Decrease in cash balances	**(342)**	(3,835)
Net funds at 1 April 2013	**12,336**	16,171
Net funds at 31 March 2014	**11,994**	12,336

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2014)

17. Pension Fund

Employees of the Company, where they are eligible and have chosen to join, are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme funded by contributions from both employer and employees at rates which are determined periodically on the basis of actuarial advice, and which are calculated to spread the expected costs of benefits payable to employees over the period of these employees' expected service lives. The assets of the scheme are held by the States of Guernsey and the ultimate liability to pay out any pension when it is realised lies also with the States should the Company be unable to meet its funding commitments.

The scheme has established differing terms for those who joined before 1st January 2008 and those who joined after. For pre-2008 members of the scheme the employee is entitled to a retirement benefit of 1/80th of final salary for each year of membership of the scheme up to a maximum of 45 years on reaching 65 years of age. Additionally a lump-sum payment is paid based on 3/80th of final salary for each year of employment. For members who joined after 1 January 2008 the benefit entitlement accrues at 1/60th of final salary but no lump sum automatically accrues. A lump sum is achievable by commuting part of the pension entitlement. The take up of this commutation into lump sum cannot be known but an assumption based on a prudent forecast has been adopted. This assumes that a 75% commutation will be requested by members. The scheme is a funded scheme. The most recent actuarial update of scheme assets and the present value of the defined benefit obligation was carried out at 31 March 2014 by Mrs D Simon, Fellow of the Institute of Actuaries.

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Fund. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method.

The amounts recognised in the Balance Sheet are as follows

	31 March 2014	31 March 2013
	£'000	£'000
Fair value of Fund Assets	**36,012**	33,395
Present value of funded obligations	**(50,801)**	(44,972)
Deficit in the scheme	**(14,789)**	(11,577)
Related deferred tax asset	**2,957**	2,315
Net pension liability	**(11,832)**	(9,262)
Amounts in the Balance Sheet		
Assets	-	-
Liabilities	**(11,832)**	(9,262)
Net pension liability	**(11,832)**	(9,262)

The amounts recognised in the Profit and Loss account are as follows:

	31 March 2014	31 March 2013
	£'000	£'000
Current service cost	**1,792**	1,776
Interest on obligation	**2,093**	1,965
Expected return on Fund assets	**(1,940)**	(1,775)
Expense recognised in the Profit and Loss	**1,945**	1,966
Actual return on Fund assets	**2,230**	3,154

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2014)

17. Pension fund - continued

Changes in the present value of the defined benefit obligation are as follows:

	31 March 2014 £'000	31 March 2013 £'000
Opening defined benefit obligation	**44,972**	42,107
Service cost	**1,792**	1,776
Interest cost	**2,093**	1,965
Contributions by members	**418**	418
Actuarial losses/(gains)	**2,522**	(221)
Benefits paid	**(996)**	(1,073)
Closing defined benefit obligation	**50,801**	44,972

Changes in the fair value of Fund assets are as follows:

	31 March 2014 £'000	31 March 2013 £'000
Opening fair value of Fund assets	**33,395**	29,882
Expected return	**1,940**	1,775
Actuarial Gains	**290**	1,379
Contributions by employer	**965**	1,014
Contributions by members	**418**	418
Benefits paid	**(996)**	(1,073)
Closing fair value of Fund assets	**36,012**	33,395

Analysis of amounts recognised in statement of total recognised gains and losses

	31 March 2014 £'000	31 March 2013 £'000
Total Actuarial (gains) / losses	**(2,232)**	1,600
Total (gains) / losses in statement of total recognised gains and losses	**(2,232)**	1,600
Cumulative amount of losses recognised in statement of total recognised gains and losses	**(8,187)**	(5,955)

Guernsey Post expects to contribute £972,742 to the Fund from 1 April 2014 to 31 March 2015.

NOTES TO THE FINANCIAL STATEMENTS **(continued)** (year ended 31 March 2014)

17. Pension fund - continued

The major categories of Fund assets as a percentage of the total Fund assets are as follows:

	31 March 2014	31 March 2013
	%	%
Equities	**70**	69
Gilts	**3**	4
Corporate Bonds	**14**	15
Other Assets	**9**	7
Property	**4**	5

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages (where applicable)) are as follows:

	31 March 2014	31 March 2013
	% pa	% pa
Discount rate	**4.4**	4.7
Expected return on Fund assets at 31March (for following year)	**6.6**	5.9
Rate of increase in pensionable salaries	**4.45**	4.35
Rate of increase in deferred pensions	**3.7**	3.6
Rate of increase in pensions in payment	**3.7**	3.6

Mortality Assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 87 if they are male and until age 89 if female. For a member currently aged 45 the assumptions are that if they attain age 65 they will live on average until age 89 if they are male and until age 92 if female.

Description of the basis used to determine the expected rate of return on the assets

The Employer adopts a building block approach in determining the expected rate of return on the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

Amounts for the current and previous are as follows:

	31 March 2014	31 March 2013	31 March 2012	31 March 2011	31 March 2010
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	50,801	44,972	42,107	36,895	34,476
Fund Assets	36,012	33,395	29,882	29,101	25,126
Deficit	(14,789)	(11,577)	(12,225)	(7,794)	(9,350)
Experience Gains/(losses) on Fund assets	290	1,379	(1,940)	1,252	4,126
Experience Gains/(Losses) on Fund liabilities	1,537	202	1,913	312	1,335

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2014)

18. Financial commitments

Capital commitments are as follows:

	31 March 2014 £'000	31 March 2013 £'000
Sortation machine	**762**	-

Annual commitments under non-cancellable operating leases are as follows:

	31 March 2014 Land and buildings £'000	31 March 2013 Land and buildings £'000
Expiry date		
- within 1 year	**-**	-
- between two and five years	**81**	11
- after five years	**8**	73
	89	84

Leases of land and buildings are subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

GUERNSEY
POST

Guernsey Post Limited
Envoy House, La Vrangue, St Peter Port, Guernsey GY1 1AA
Telephone: 726241 Facsimile: 712082

INVESTOR IN PEOPLE